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Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 FEAE-00 CIAE-00 DODE-00 INR-11 NSAE-00

PA-04 RSC-01 USIA-15 PRS-01 SP-03 NIC-01 DRC-01 L-03

H-03 AGR-20 SWF-02 AID-20 EB-11 NSC-07 CIEP-03 SS-20

STR-08 OMB-01 CEA-02 COME-00 FRB-03 XMB-07 OPIC-12

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INFO DEPARTMENT OF TREASURY WASHDC
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SUBJ: COLOMBO DEFENDS STABILIZATION PROGRAM

REF: ROME 13201

1./SUMMARY/. IN UNUSUALLY HARD-HITTING SPEECH DELIVERED AT BARI, TREASURY MINISTER COLOMBO ISSUED CLEAR WARNING THAT "FALSE STEPS" MUST BE AVOIDED IF COUNTRY IS TO SOLVE ITS DIFFICULT ECONOMIC PROBLEMS. IN WAKE OF LABOR UNION PROPOSALS TO UNIFY METHID OF CALCULATING COST OF LIVING COMPONENT AT HIGHEST EXISTING BASE, COLOMBO NOTED THAT CONSEQUENTIAL INCREASE IN WAGES AND SALARIES WOULD FUEL INFLATION WITH RESULT THAT GOI ECONOMIC STABILIZATION PROGRAM WOULD BE DESTROYED. COLOMBO SPEECH REPRESENTS CLARION CALL TO SENSE OF ECONOMIC AND POLITICAL RESPONSIBILITY IN ORDER TO AVOID ADOPTION OF "EASY SOLUTIONS" WHICH ARE AT ODDS WITH GOI EFFORTS TO COMBAT INFLATION AND REDRESS BALANCE OF PAYMENTS.
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2. IN SPEECH DELIVERED ON SEPTEMBER 23 AT CLOSING CEREMONY OF 38TH BARI LEVANT FAIR, TREASURY MINISTER COLOMBO REFERRED TO "GREAT RISK" INHERENT IN DEMANDS FOR SIZEABLE INCREASES IN WAGES AND SALARIES AS THESE DEMANDS RELATE TO GOI EFFORTS TO FIGHT INFLATION AND REDRESS BALANCE OF PAYMENTS. COLOMBO NOTED THAT PROPOSALS TO INCREASE WAGES AND SALARIES IN FACE OF RAPID INFLATION ARE UNDERSTANDABLE BUT THAT MAGNITUDE OF PROPOSALS EMANATING FROM CERTAIN QUARTERS (VIZ. LABOR UNIONS) ARE SUCH THAT ADOPTION OF SUCH "EASY SOLUTIONS" WOULD RESULT IN CLAMOROUS FAILURE OF GOI STABILIZATION PROGRAM. IN THIS REGARD, COLOMBO ADDED THAT SOCIAL AND PRODUCTIVE FORCES OF COUNTRY SHOULD NOT BE MISLED BY ILLUSION THAT THEY CAN SOLVE IMMEDIATE PROBLEMS IN THIS WAY, THUS LEAVING TASK OF COMBATTING INFLATION SOLELY TO GOVERNMENT. IT IS CERTAIN THAT MASSIVE INCREASE IN WAGES AND IN DOMESTIC DEMAND WOULD NEGATE EFFECT OF TAX PACKAGE ADOPTED BY PARLIAMENT IN AUGUST, WOULD EVENTUALLY ERODE PURCHASING POWER OF WAGES AND SALARIES, AND WOULD RENDER ILLUSORY ANY EFFORTS TO STIMULATE INVESTMENTS , TO MAINTAIN EMPLOYMENT OR TO ASSIST UNDERDEVELOPED MEZZOGIORNO.

3. COLOMBO ISSED WARNING TO AVOID FALSE STEPS", DIRECTING COMMENTS TO LABOR, BUSINESS AND ADMINISTRATIVE STRATA OF SOCIETY BUT ALSO IMPLICITLY TO SOCIALIST PARTY WHICH HE DESCRIBED AS "THESE POLITICAL FORCES WHICH ALSO EXIST WITHIN GOVERNMENT COALITION AND WHICH FUEL FIRES OF UNCERTAINTY AND DISQUIET -- A SITUATION WHICH HARDLY SERVES TO CREATE CONFIDENCE IN ACTION TAKEN SO FAR BY GOVERNMENT TO SOLVE ECONOMIC PROBLEMS." COLOMBO URGED THAT SUCH DIFFERENCES AND DISSENSION BE OVERCOME. HE SAID THAT TO CONTINUE TO FINANCE SERIOUS BLANCE OF PAYMENTS DEFICIT AND BUDGET DEFICIT BY MONETARY MEANS WAS CONTRADICTORY AND WAS EQUIVALENT TO FUELING INFLATIONARY PRESSURES. IN ADDITION TO FISCAL MEASURES ALREADY ADOPTED, IT WOULD BE NECESSARY FOR GOI TO ADOPT OTHER MEASURES TO FINANCE PUBLIC DEFICIT AND TO ENCOURAGE INVESTMENTS FROM SAVINGS.

4. COLOMBO STATED THAT ITALY'S ECONOMIC PROSPECTS FOR COMING MONTHSSHOULD BE LESS NEGATIVE THAN FEARED IN SOME
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QUARTERS PROVIDED THAT REMEDIAL POLICIES ADOPTED BY GOI ARE ADHERED TO IN THEIR ENTIRETY . THERE ARE SIGNS, HE SAID, THAT STEPS TAKEN SO FAR ARE HAVING POSITIVE RESULTS BUT IT IS STILL TOO EARLY TO SPEAK OF COMPLETE SUCCESS. PRODUCTION AND EMPLOYMENT IN MOST INSTANCES AREHOLDING UP WELL. AS FOR BALANCE OF PAYMENTS, COLOMBO NOTED THAT AFTER MORE THAN 20 MONTHS OF PERSISTENT DEFICITS, SURPLUSES WERE REGISTERED BOTH IN JULY,AUGUST AND

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FIRST PART OF SEPTEMBER. AS FOR PROBLEMS OF INFLATION AND OIL-RELATED BALANCE OF PAYMENTS DEFICIT, THERE IS HOPE THAT PROBLEMS WILL BE RESOLVED IN LONG-TERM BY CONSISTENT APPLICATION OF SEVERE POLICIES.

5. COLOMBO CONCLUDED SPEECH BY SAYING THAT GOI REMAINS COMMITTED TO INTERNATIONAL COOPERATION IN ECONOMIC AND MONETARY FIELDS. TASK WILL NOT BE EASY AS REFLECTED IN SLOW PROGRESS MADE TO DATE IN COOPERATIVE APPROACH TO REALIZING INTERNATIONAL FINANCIAL SOLIDARITY. THIS FACT SHOULD OFFER FOOD FOR THOUGHT FOR THOSE IN SEARCH OF EASY SOLUTIONS TO THESE DIFFICULT PROBLEMS. IN ANY EVENT, THOSE COUNTRIES WHICH WISH TO ASSIST ITALY IN THIS DIFFICULT PERIOD ARE ASKING THEMSELVES WHETHER THE WILL EXIST IN ITALY TO PURSUE ECONOMIC POLICIES WITH DETERMI-NATION, AIMED AT ACHIEVING BALANCE BETWEEN COUNTRY'S RESOURCES AND ITS CONSUMPTION.VOLPE

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